

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF PUERTO RICO

IN RE:

VERNUS GROUP CORP.

DEBTOR

CASE NO. 15-09339 (BKT)

CHAPTER 11

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DISCLOSURE STATEMENT

OF

VERNUS GROUP CORP.

/s/Charles A. Cuprill-Hernández

USDC-PR 114312

CHARLES A. CUPRILL, P.S.C. LAW OFFICES

Counsel for Debtor

356 Fortaleza Street

Second Floor

San Juan, PR 00901

Tel : 787-977-0515

Fax: 787-977-0518

E-mail: [ccuprill@cuprill.com](mailto:ccuprill@cuprill.com)

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## I. INTRODUCTION

Pursuant to Section 1125 of the United States Bankruptcy Code, 11 U.S.C. § 101, et seq. (the "Bankruptcy Code"), Vernus Group Corp., debtor and debtor-in-possession in the above captioned case ("Debtor"), submits its Disclosure Statement (the "Disclosure Statement") to all of its known creditors and parties in interest in the captioned case. The purpose of the Disclosure Statement is to provide such information as Debtor believes may be deemed necessary for Debtor's creditors to make an informed decision in exercising their rights to vote on Debtor's Plan (the "Plan"), dated as of the date of the Disclosure Statement. The Plan is being filed with the United States Bankruptcy Court for the District of Puerto Rico ("Bankruptcy Court")<sup>1</sup> contemporaneously herewith.

Debtor recommends that you vote to accept the Plan. Each creditor must, however, review the Plan and the Disclosure Statement carefully, including all Exhibits in their entirety, and determine whether or not to accept or reject the Plan based upon that creditor's independent judgment and evaluation. The description of the Plan in the Disclosure Statement is in summary form and is qualified by reference to the actual terms and conditions of the Plan, which should be reviewed carefully before making a decision to accept or reject the Plan. Capitalized terms not otherwise defined herein have the same meaning as set forth in the Plan, other terms shall have the meaning ascribed to them in the Bankruptcy Code.

The information contained in the Disclosure Statement has been provided by Debtor based upon Debtor's knowledge of its records, business, and affairs. Except as otherwise expressly indicated, the information provided by Debtor in the Disclosure

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<sup>1</sup> Capitalized terms shall have the meaning as defined in the Plan.

Statement has not been subject to an audit or independent review. Although great efforts have been made to be accurate, Debtor, its counsel and other professional advisors do not warrant the accuracy of the information contained herein.

The Disclosure Statement has not yet been approved by the Bankruptcy Court as providing information deemed adequate to permit Debtor's creditors to make an informed judgment in exercising their right to vote for or against the Plan.

No representations concerning Debtor, including the value of its assets, or the aggregate dollar amount of claims which may be allowed are authorized other than as set forth in the Disclosure Statement. Any representations, warranties or agreements made to secure acceptance or rejection of the Plan by Debtor's creditors that differ from those contained in the Disclosure Statement should not be relied upon in voting on the Plan.

Debtor believes that the Plan provides the quickest recovery and will maximize the return to creditors on their Claims. ACCORDINGLY, DEBTOR URGES ALL CREDITORS TO VOTE IN FAVOR OF THE PLAN.

## II. SUMMARY OF THE PLAN

The Plan specifies the manner in which the Claims and Interests in Debtor are to be treated. Allowed Administrative Expense Claims are not classified for purposes of voting under the Plan, but the Plan does provide for the treatment of such Claims. The table below provides a summary of the treatment of those claims and of the various Classes of Claims against Debtor, as well as that of Debtor's shareholders' interests in Debtor. To the extent that the terms of the Disclosure Statement vary from those of the Plan, the terms of the Plan will control.

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT UNDER THE PLAN/ ESTIMATED RECOVERY UNDER THE PLAN
Holders of Allowed Administrative Expense Claims	N/A	\$204,486.00	Unimpaired.  Estimated Recovery: 100%  Except as otherwise agreed to by Debtor and the holder of an Allowed Administrative Expense Claim, including unpaid post-petition accounts payable, each such holder shall be paid in full in cash on the Effective Date of the Plan, from the proceeds of the sale of substantially all of Debtor's assets, as set forth below (the "Sale of Assets"), the proceeds from certain Chapter 5 avoidance actions to be filed by Debtor (the "Avoidance Actions"), and the sale of existing inventory (the "Sale of Inventory").
Holders of Allowed Priority Tax Claims	N/A	\$10,310.46	Unimpaired.  Estimated Recovery: 100%  The Holders of Allowed of Priority Tax Claims as may be reduced and/or negotiated with the respective governmental agencies, or as finally determined by the Bankruptcy Court, shall be paid in full on the Effective Date of the Plan, from the proceeds of the Sale of Assets, the Avoidance Actions, and the Sale of Inventory.
Holders of Allowed Other Priority Claims	N/A	\$65,719.05	Unimpaired.  Estimated Recovery: 100%  Holders of Allowed Other Priority Claims, primarily composed of unpaid salaries to Debtor's former employees, earned during the 180 days prior to the filing date, shall be paid in full on the Effective Date of the Plan, from the proceeds of the Sale of Assets, the Avoidance Actions, and the Sale of Inventory.
Holders of Allowed Non-	Class 1	\$423,449.55	Impaired.

Insider General Unsecured Claims			<p>Estimated Recovery: 95%</p> <p>Holders of Allowed Non-Insider General Unsecured Claims, excluding the claims of Debtor's insiders, will be paid in full satisfaction of their claims, as the claims may be reduced and/or negotiated, or as finally determined by the Bankruptcy Court, 95% of their allowed claims on a pro-rata basis, as follows: 1) \$19,485.00, representing 5% of Class 1's allowed claims, to be paid from the proceeds of the Sale of Assets on the Effective Date of the Plan; 2) \$120,000.00, representing 28% of Class 1 allowed claims, to be paid from the proceeds of the Sale of Inventory on the later of the Effective Date of the Plan or the closing on the Sale of Inventory; and 3) \$260,000.00, representing 62% of Class 1 allowed claims, to be paid from the proceeds of the Avoidance Actions on the later of the Effective Date of the Plan or the date of collection of the Avoidance Actions.</p> <p>Any remaining funds after paying Class 1 allowed claims will also be distributed to the General Non-Insider Unsecured Creditors, up to the full satisfaction of their allowed claims on a pro-rata basis.</p> <p>The proceeds from the Sale of Inventory and the Avoidance Actions are contingent events whose success affects the estimated recovery for Class 1 allowed claims. Moreover, the final dividend to Class 1 may be affected by the costs of pursuing the Avoidance Actions or by additional post-petition accounts payable.</p>
Holders of Estimated Allowed Insider General Unsecured Claims	Class 2	\$555,834.00	<p>Impaired</p> <p>Estimated recovery: Undetermined</p> <p>These claims will not receive any dividends for their allowed claims from the proceeds of the Sale of Assets, the Avoidance Actions, and the Sale of Inventory.</p>
Holders of Interest in	Class 3	N/A	Impaired.

Debtor			The shares of the Equity Interest Holders in Debtor will be cancelled on the Effective Date.
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For a more detailed description of the treatment of the foregoing Classes of Claims and Interest, see "Treatment of Claims and Interest under the Plan".

The Disclosure Statement has been prepared by Debtor to provide creditors with adequate information so that they can make an informed judgment about the Plan. Each creditor should read the Disclosure Statement and the Plan in their entirety before voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to the Disclosure Statement and no person has been authorized to utilize any information concerning Debtor's assets other than the information contained herein for purposes of solicitation.

### III. INFORMATION ABOUT THE REORGANIZATION PROCESS

#### 3.1 Purpose of a Disclosure Statement

The Disclosure Statement includes background information about Debtor and identifies the classes into which creditors and the equity holder have been placed by the Plan. It describes the proposed treatment of each of those Classes if the Plan is confirmed and contains information concerning the prospects in the event of confirmation or, in the alternative, the prospects if confirmation is denied or the proposed Plan does not become effective.

Upon its approval by the Bankruptcy Court, the Disclosure Statement and its Exhibits will have been found to contain, in accordance with the provisions of the Bankruptcy Code, adequate information of a kind and in sufficient detail to enable a reasonable, hypothetical investor, typical of a holder of an impaired claim or an interest to make an informed judgment about the Plan. Approval of the Disclosure Statement,



however, does not constitute a recommendation by the Bankruptcy Court either for or against the Plan.

### 3.2 Voting Procedure

All creditors entitled to vote on the Plan may cast their votes for or against the Plan by completing, dating, signing and causing the Ballot Form accompanying this Disclosure Statement as Exhibit A, to be returned to the following address:

VERNUS GROUP CORP.  
c/o CHARLES A. CUPRILL, P.S.C., LAW OFFICES  
356 Fortaleza Street – Second Floor  
San Juan, PR 00901

The Ballots must be received on or before 4:00 P.M. (Eastern Standard Time) on \_\_\_\_\_, 2016, to be counted in the voting. Ballots received after this time will not be counted in the voting unless the Bankruptcy Court so orders. Debtor recommends a vote for "ACCEPTANCE" of the Plan.

### 3.3 Ballots

Pursuant to the provisions of the Bankruptcy Code, only classes of claims or interests which are "impaired" under the terms and provisions of a plan are entitled to vote to accept or reject such plan. A Class is deemed not to have accepted a plan if such plan provides that the claims or interests of such Class don't entitle the holders of such claims or interests to receive or retain any property under the Plan on account of such claims or interests.

Class 1 is impaired under the Plan and entitled to vote for acceptance or rejection of the Plan. Classes 2 and 3 are not to receive any dividends or retain any interest in Debtor and thus, are deemed to have rejected the Plan and not entitled to vote to accept or reject the Plan.

A party who holds claims in more than one impaired Class should complete a Ballot for each Class with respect to the applicable portion of the claim included in each Class.

### 3.4 The Confirmation Hearing

Pursuant to Section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing on confirmation of the Plan to commence on \_\_\_\_\_ 2016 at \_\_\_\_\_.M., or as soon thereafter as the parties can be heard. The Confirmation Hearing will be held before the Honorable Brian K. Tester, United States Bankruptcy Judge, 300 Recinto Sur Street, San Juan, Puerto Rico 00901, or before such other Bankruptcy Judge and at such other place as may be indicated in the future.

At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the various requirements of the Bankruptcy Code, including whether it is feasible and in the best interests of holders of claims and interests. The Bankruptcy Court will also receive and consider a Report of Plan Voting prepared by Debtor, summarizing the votes for acceptance or rejection of the Plan by parties entitled to vote.

The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjourned date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

At the Confirmation Hearing with respect to the Plan, the Bankruptcy Court will (i) determine whether the requisite votes have been obtained for each Class, (ii) hear and determine objections, if any, to the Plan and to the confirmation of the Plan, that have not been previously disposed of, (iii) determine whether the Plan meets the confirmation

requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

Any objection to confirmation of the Plan must be in writing, filed and served as required by the Bankruptcy Court pursuant to the order approving the Disclosure Statement, a copy of which is attached as Exhibit B hereto.

### 3.5 Acceptances Necessary to Confirm the Plan

The vote of each holder of an impaired claim entitled to vote is important since at the Confirmation Hearing and as condition to the confirmation of the Plan on a consensual basis, the Bankruptcy Court must determine, among other things, whether each impaired Class of creditors and interests holders entitled to vote has accepted a plan. Under Section 1126 of the Bankruptcy Code, an impaired Class of creditors is deemed to have accepted a plan if at least 2/3 in amount and more than 1/2 in number of the Allowed Claims of the Class members who actually cast ballots to accept or reject the plan, accept the plan. A class of interest holders is deemed to have accepted a plan if at least 2/3 in amount of the allowed interests of such Class held by holders of such interests who actually cast ballots to accept or reject the plan. Further, unless there is acceptance of the Plan by all members of an impaired Class, the Bankruptcy Court must also determine that under the Plan, Class members will receive property of a value, as of the Effective Date, that is not less than the amount that such Class members would receive or retain if the debtor were to be liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date of the Plan.

### 3.6 Confirmation of the Plan without the Necessary Acceptances

If a Class or Classes of impaired Claims do not accept the Plan, Debtor will request confirmation of the Plan under the "cram down" provisions of Section 1129(b) of

the Bankruptcy Code, which permits confirmation, notwithstanding non-acceptance by one or more impaired Classes, if the Bankruptcy Court finds that the Plan does not discriminate unfairly against and is fair and equitable as to each non-accepting Class entitled to vote on the Plan, as long as at least one class of impaired creditors votes to accept the Plan. Section 1129(b) of the Bankruptcy Code requires among other things, that claimants must either receive the full value of their claims and if they receive less, that no Class with junior liquidation priority may receive anything. THESE CALCULATIONS ARE BASED ONLY ON THE CLAIMS AMOUNTS AND NUMBER OF CREDITORS WHO ACTUALLY VOTE. ANY BALLOT THAT IS VALIDLY EXECUTED THAT DOES NOT CLEARLY INDICATE REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE A VOTE FOR ACCEPTANCE OF THE PLAN. THE VOTE OF EACH CREDITOR IS IMPORTANT.

#### IV. GENERAL INFORMATION

##### 4.1 Debtor's Description and Historical View.

During the year 2008, Mr. José Rafael Hernández ("Mr. Hernández") invented a 100% natural chemical formula capable of segregating oil from other materials (the "Invention"), based on an existing product previously invented by him and Mr. Antonio Camacho Velazquez ("Mr. Camacho"). Shortly thereafter, Messrs. Hernández and Camacho commenced their marketing efforts of the Invention by seeking customers who could have a commercial need therefor (the "Commercialization").

On or about August or September of 2009, Mr. Hernández approached Mr. Carlos López Rosario ("Mr. López") and Mr. Francisco Méndez Del Valle ("Mr. Méndez"), who operated an oil recovery business, in San Juan, Puerto Rico, in an

effort to market the Invention for use in their business. Realizing the commercial potential of the Invention, Mr. López indicated to Mr. Hernández that he would like to participate in the Commercialization as a partner.

While negotiating the terms of the partnership with Mr. López, Mr. Hernández insisted and agreed that Mr. Méndez should be given an equity participation in the newly formed venture, so that he may be properly motivated to pursue the Commercialization, with said negotiations resulting in Debtor's incorporation on October 28, 2010, with an agreed upon equity participation of twenty-five percent (25%) to each of Messrs. Hernández, Camacho, López, and Méndez.

On November 18, 2011, Mr. Hernández and Mr. Camacho (collectively the "Inventors") filed a patent application for the Invention (the "Patent") with the United States Patent and Trademark Office ("USPTO"), subsequently contributing the Patent to Debtor in exchange for their equity participation therein. The commercial value of the Patent, currently marketed under the commercial name of GreenSafe, if properly exploited, could have been worth hundreds of millions of dollars as it has multiple commercial applications that range from improving the recovery and productivity of oil wells to assisting cleanup efforts in cases of oil spills.

Debtor's need for additional capital grew along with the Commercialization efforts, lead Debtor to reach an agreement on March 19, 2012, with Alfonso Karam Dib ("Mr. Karam Dib") whereby Mr. Karam Dib and his nephew Mr. Carlos Karam Pisapia ("Mr. Karam Pisapia") would each contribute \$1,500,000.00 in capital to Debtor, for a total investment of \$3,000,000.00, in return of each receiving a fifteen percent (15%) equity participation in Debtor (the "Investment").

After the Investment, Debtor's equity was distributed among 6 shareholders in common stock (collectively referred to as the "Shareholders"), as follows: a) Mr. Hernandez 15% of Debtor's equity; b) Mr. Camacho 15% of Debtor's equity; c) Mr. López 15% of Debtor's equity; d) Mr. Méndez 15% of Debtor's equity; e) Mr. Karam Dib 15% of Debtor's equity; f) Mr. Karam Pisapia 15% of Debtor's equity; with the remaining 10% of Debtor's common stock being held as treasury stock for future capitalization (the "Treasury Stock").

With the Investment, the Commercialization went into high gear with Debtor establishing subsidiaries in the United States of America, Venezuela, and Mexico. As the Commercialization progressed, Debtor needed additional capital to continue with the execution of its business plan.

In his efforts to raise additional capital for Debtor, Mr. Méndez entered into several transactions concerning Debtor's equity consisting of: a) The double-sale of 10% of Debtor's Treasury Stock (the "Double Sale") to Mr. Karam Dib, José Dapena Fernández, Esq. ("Mr. Dapena"), and Luis Ayala Colón Sucrs., Inc. ("LACSI") (Mr. Dapena and LACSI collectively referred to as the "Alleged Shareholders"); and b) the resale of a 5% equity interest from Mr. Méndez's original equity interest of 15% to Mr. Dapena and LACSI (the "Resale").

The Double Sale, the Resale, and the controversies relative thereto led to infighting among Messrs. Camacho, Hernández, Karam Dib, and Karam Pisapia, whom in conjunction hold a minimum of 60% of Debtor's equity, with Messrs. López and Méndez and the Alleged Shareholders, regarding the 15% of Debtor's equity affected by the Double Sale and the Resale (the "Crisis").

#### 4.2 Events Preceding Debtor's Chapter 11 Filing.

The Crisis adversely affected Debtor's operations and Debtor's obligations to its creditors.

Prior to the filing of Debtor's voluntary petition for relief under Chapter 11 of the Bankruptcy Code (the "Petition"), Debtor's previous management, under Messrs. López and Méndez, commenced to dismantle GreenSafe's production line, erasing the computer programming of the patented formula, and selling Debtor's raw materials inventory to local chemical vendors.

By the filing of the Petition, Debtor operations were approaching a total standstill, as follows: a) Debtor was evicted by The Puerto Rico Trade and Export Company ("PRTEC") from its manufacturing and warehousing facilities in Ponce; b) Debtor owed its employees \$117,954.26 in unpaid wages and salaries; c) Debtor's waste disposal service was canceled; d) Debtor's telephone and telecommunication services were disconnected; e) Debtor's electrical utility bills were 60-days past due, resulting in the disconnection of electrical services in Debtor's administrative offices in San Juan; f) Debtor's insurance policies were canceled; g) Debtor's Workmen Compensation Insurance with the Puerto Rico State Insurance Fund had balances due since July 2015; and h) almost all of Debtor's providers of raw materials and services had placed Debtor on credit hold.

#### 4.3 Debtor's Post-Petition Endeavors.

Debtor filed the Petition on November 25, 2015 (the "Petition"), and as of that date has been managing its affairs as a debtor-in-possession pursuant to 11 U.S.C. § 1107.

Debtor's current President, Mr. Hernández, gained control of Debtor's affairs from its former President, Mr. López, after the filing of the Petition (the "Turnover"). In

order to reduce its post-petition operating costs, Debtor closed down its offices in San Juan, laying off its employees.

Debtor's original reorganization effort was geared towards the resolution of the Crisis and the rehabilitation of its operations (the "Rehabilitation"), with Mr. Karam Dib providing post-petition funding for said endeavor. Upon examining Debtor's affairs after the Turnover, Mr. Hernández became aware that Debtor's operations were more severely impacted than originally thought. In order to resolve the Crisis, Debtor proposed to the Shareholders and Alleged Shareholders a settlement that would have guaranteed Debtor's continued operations and a reorganization plan providing for a 100% payoff to all of Debtor's creditors (the "Settlement Offer").

The Settlement Offer was accepted by Messrs. Camacho, Hernández, Karam Dib, and Karam Pisapia, and eventually rejected by Messrs. López, Méndez, Dapena, and LACSI, after seeking and obtaining from Debtor two extensions of time amounting to more than 30 days.

The Shareholders' and Alleged Shareholder's inability to agree to the Settlement Offer impeded the planned Rehabilitation. Debtor's required capital expenditure to restart its operations, lack of access to working capital infusion, and projected general operational expenses, along with its indebtedness, exceed Debtor's short term revenue stream and the value of its assets. Based on Debtor's current fiscal and financial condition, Debtor cannot satisfactorily restart and reorganize its operations as originally contemplated leaving Debtor with no other option but to seek the orderly liquidation of its assets in an effort to fund its plan of reorganization in order to obtain the maximum possible recovery to



unsecured creditors and the most benefit to the various constituents of Debtor's estate.

Debtor has undertaken the following efforts for the benefit of its estate and its creditors:

Debtor sought and obtained the Bankruptcy Court's approval to retain Charles A. Cuprill, PSC Law Offices, as its bankruptcy counsel.

Debtor also sought and obtained the Bankruptcy Court's approval to retain Luis R. Carrasquillo, CPA ("Carrasquillo") as its financial consultant on all matters pertaining to Debtor's reorganization, including the examination<sup>2</sup> of Debtor's books and records and the issuance of a report thereof (the "Report").

The Report examined all cash inflows and outflows since Debtor's incorporation including the payments that led to Debtor's referral to the Federal Bureau of Investigation (the "FBI Referral") for alleged violations of, inter alia, the Foreign Corrupt Practices Act by Mr. Karam Dib (the "Alleged Violations"). The Report identified two potential Chapter 5 avoidance actions under Sections 547, 548, and 549 of the Bankruptcy Code, relative to: 1) pre-petition excessive alleged travel expenses paid to Mr. Méndez, and 2) post-petition sale of Debtor's capillary tubing unit, specialized equipment used for the injection of Debtor's proprietary chemical formulas (the "Capillary Unit") (collectively the "Avoidance Actions").

On April 21, 2016, Debtor and Banco Popular de Puerto Rico ("BPPR") filed a joint stipulation to setoff BPPR's \$244,202.82 secured claim (the Secured Claim") against BPPR's collateral, consisting of Debtor's \$250,000.00 certificate of deposit with BPPR, with BPPR paying Debtor the balance of \$5,797.18, in this fashion

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<sup>2</sup> Pursuant to the scope stipulated to at Docket No.52

Debtor satisfying in full BPPR's Secured Claim (the "Joint Stipulation"), which was granted on May 18, 2016.

As further discussed below, in order to provide feasibility to the Plan, Debtor will proceed with the following actions to fund the same: a) the sale of substantially all of its Assets, pursuant to Section 363 of the Bankruptcy Code, free and clear of all liens, claims, interests and encumbrances, for not less than \$300,000.00 (the "Sale Motion"); b) the sale of its existing inventory for no less than \$120,000.00 (the "Sale of Inventory"); and c) the prosecution of the Avoidance Actions totaling \$260,000.00.

## V. CLAIMS AGAINST DEBTOR

### 5.1 Claims Against Debtor

Claims against Debtor that are Allowed Claims, as defined in the Plan, will be entitled to distribution pursuant thereto, as indicated in pages 6-8 hereof.

The Plan provides that only the holders of Allowed Claims, that is, holders of Claims not in dispute, not contingent, liquidated in amount and not subject to objection or estimation are entitled to receive distribution thereunder. Until a claim becomes an Allowed Claim, distribution will not be made to the holder of such claim.

### 5.2 Objections to Claims

The amounts set forth as due to holders of unclassified and classified claims are estimates only, based upon Debtor's Schedules or Debtor's belief as to amounts due thereto. Debtor is including as Exhibit C hereto a Summary of Claims and Plan Payments, including reconciliation of claims against Debtor, indicating those objected or to be objected to and those pending.

Any objections to Claims must be filed and served on the holders thereof by the

Claims Objection Bar Date, which as set forth in the Plan is the later of the date that such claims become due and payable in accordance with their terms, or thirty (30) days before the first date fixed by the Bankruptcy Court for the hearing on the confirmation of Debtor's Plan. If an objection has not been filed to a Claim by the Claims Objection Bar Date, the Claim will be treated as an Allowed Claim.

Objections to Claims filed in Debtor's Chapter 11 case are to be prosecuted by Debtor, including any application to estimate or disallow Claims for voting purposes.

#### VI. DESCRIPTION OF THE PLAN

The following is a summary of the significant provisions of the Plan and is qualified in its entirety by said provisions. A copy of the Plan is being filed simultaneously herewith. In the event and to the extent that the description of the Plan contained in the Disclosure Statement is inconsistent with any provisions of the Plan, the provisions of the Plan shall control and take precedence. All creditors are urged to carefully read the Plan.

The Plan and Disclosure Statement refer to the Sale Motion. To the extent of any inconsistency between the Disclosure Statement and Plan as to the terms of the sale of the Assets, the Sale Motion and Exhibits thereto, will be deemed a Supplement to the Plan and shall control. As to all other matters disclosed and included in the Disclosure Statement, the Plan shall control.

The Plan contemplates that Debtor will pay: 1) from the proceeds of the Sale of the Assets, all of the Allowed Administrative Expense Claims, including those related to the sale of the Assets; all of the Allowed Priority Tax Claims, all of the Allowed Other Priority Claims, with a \$19,485.00 carved out from the Sale of the Assets for a pro-rata distribution to Allowed Non-Insider General Unsecured Claims;

2) \$120,000.00 from the proceeds of the Sale of Inventory on a pro-rata basis to Allowed Non-Insider General Unsecured Claims; and 3) \$260,000.00 from the proceeds of the Avoidance Actions on a pro-rata basis to Allowed Non-Insider General Unsecured Claims.

#### 6.1 Unclassified Claims

In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims are not classified in the Plan. A description of the unclassified claims and the Claims and Interest in each class, as well as the estimated principal amount thereof as of the Effective Date and their treatment, are set forth in the Plan. Administrative Expense Claims are generally the ordinary and necessary costs of administering and operating during a Chapter 11 case.

#### 6.2 Administrative Expense Claims

Except as otherwise agreed to by Debtor and the holder of an Allowed Administrative Expense Claim, each such holder shall be paid in full in the regular course of business or as authorized by the Court on or before the Effective Date, from the proceeds of the sale of the Assets.

If Debtor disputes any portion of an Administrative Expense Claim, Debtor shall pay such Claim within thirty (30) days after the entry of a Final Order with respect to the allowance of such disputed Administrative Expense Claim. Debtor will reserve the necessary funds to meet these payments.

#### 6.3 Professional Fee Claims

The professionals retained by Debtor in Debtor's Chapter 11 case have and will incur fees and expenses from the date of their retention through the Effective Date of

the Plan. It is impossible to predict the amount of professional administrative expense fees that will be incurred through the confirmation of the Plan. As of the filing of this Disclosure Statement, Karam Dib has respectively advanced on Debtor's behalf to Debtor's counsel and financial consultant \$46,502.00 and \$35,000.00.

Debtor estimates that additional Allowed Professionals Fee Claims, to all professionals, retained by Debtor will add to approximately \$160,000.00 for unpaid services rendered and expenses incurred up to the Confirmation of the Plan. All amounts paid and to be paid to professionals through the Confirmation Date, are subject to final Bankruptcy Court approval. Debtor reserves the right to contest the allowance of any professional fees.

#### 6.4 Priority Tax Claims and Other Priority Claims

Priority Tax Claims are Claims entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code. Such Priority Tax Claims consist of taxes accrued prior to the Petition Date.

Holders of Allowed Priority Tax Claims (Secured and Unsecured) consisting of the allowed unsecured priority claims of the Municipality of Ponce and the State Insurance Fund Corporation, will be paid in full on the Effective Date from the proceeds of the Sale of the Assets. The estimated Priority Tax Claims are listed on Exhibit D hereto in the amount of \$10,310.46.

Other Priority Claims are Claims entitled to priority pursuant to Section 507(a)(4) of the Bankruptcy Code, consisting of unpaid salaries to Debtor's former employees earned during the 180 days prior to the filing of the Petition. Holders of Allowed Other Priority Claims will be paid in full on the Effective Date from the

proceeds of the Sale of the Assets. The estimated Other Priority Claims are listed on Exhibit C hereto in the amount of \$65,719.05.

#### 6.5 Classes of Claims and Equity Interest

As of the Petition Date, Debtor had secured claims with BPPR, non-priority non-insider general unsecured claims, and non-priority insider general unsecured claims as more particularly described below. The Plan classifies the various claims against Debtor. A description of all classes of Claims and the Equity Interests, the estimated principal amount due each Class as of the Effective Date and its treatment are set forth below. The Classes of Claims and the Interest in Debtor set forth in the Plan are as follows:

Class 1 - Holder of Allowed Non-Insider General Unsecured Claims against Debtor, arising from Debtor's pre-petition operations, but excluding claims of Debtor's Insiders, totaling \$423,449.55.

Class 2 - Holder of Allowed Insider General Unsecured Claims against Debtor, arising from advances made to Debtor to fund its pre-petition operations for \$555,834.00.

Class 3 - Debtor's Shareholder and Alleged Shareholders. Debtor's Shareholders and Alleged Shareholders.

#### 6.6 Treatment of Claims.

(a)

Class 1 - Holder of Allowed Non-Insider General Unsecured Claims arising from Debtor's pre-petition operations, but excluding claims of Debtor's Insiders.

(a) Impairment and Voting - Class 1 is impaired under the Plan and is entitled to vote to accept or reject the Plan.

(b) Distribution – Holders of Allowed Non-Insider General Unsecured Claims, excluding the claims of Debtor’s affiliates and/or insiders for \$423,449.55, will be paid in full satisfaction of their claims, as the claim may be reduced and/or negotiated, or as finally determined by the Bankruptcy Court, 95% of their allowed claims on a pro-rata basis, as follows: 1) \$19,485.00, representing 5% of Class 1 allowed claims, to be paid from the proceeds of the Sale of Assets on the Effective Date of the Plan; 2) \$120,000.00, representing 28% of Class 1 allowed claims, to be paid from the proceeds of the Sale of Inventory on the later of the Effective Date of the Plan or the closing on the Sale of Inventory; and 3) \$260,000.00, representing 62% of Class 1 allowed claims, to be paid from the proceeds of the Avoidance Actions on the later of the Effective Date of the Plan or the date of collection of the Avoidance Actions. The exact amount of payments to holders of Class 1 claims is contingent on the successful prosecution of the Avoidance Actions and the Sale of Inventory. Moreover, the final dividend to Class 1 may be affected by the costs of pursuing the Avoidance Actions or additional post-petition accounts payable.

Class 2 -  Holders of Allowed Insider General Unsecured Claims

- (a) Impairment and Voting - Class 2 is impaired under the Plan, will not receive any payments under the Plan, is not entitled to vote to accept or reject the Plan, and is deemed to have rejected the Plan pursuant to 11 U.S.C. § 1126 (g).
- (b) Treatment – Class 2’s claims will not receive any dividends.

Class 3 –The Interest of Debtor’s Shareholders and Alleged Shareholders

- (a) Impairment and Voting - Class 3 is impaired under the Plan, will not receive or retain its shares under the Plan, is not entitled to vote to accept or reject the Plan, and is deemed to have rejected the Plan pursuant to 11USC § 1126 (g).
- (b) Distribution –Holders of Equity Interest in Debtor, the Shareholders and Alleged Shareholders, will not receive any distribution under the Plan. Debtor’s common shares will be cancelled within 120 days from the Effective Date.

6.7 Means for Implementation of the Plan

Except as otherwise provided in the Plan, Debtor will effect payments of pending Administrative Expense Claims on the Effective Date from the proceeds of the Sale of Assets. Priority Tax Claims and Other Priority Claims will be paid as indicated above, on the Effective Date from the proceeds of the Sale of Assets. Class 1 claims will be paid in full satisfaction of their claims, as the claims may be reduced and/or negotiated, or as finally determined by the Bankruptcy Court, 95% of their allowed claims on a pro-rata basis, as follows: 1) \$19,485.00, representing 5% of Class 1 allowed claims, to be paid from the proceeds of the Sale of Assets on the Effective Date of the Plan; 2) \$120,000.00, representing 28% of Class 1 allowed claims, to be paid from the proceeds of the Sale of Inventory on the later of the Effective Date of the Plan or the closing on the Sale of Inventory; and 3) \$260,000.00, representing 62% of Class 1 allowed claims, to be paid from the proceeds of the Avoidance Actions on the later of the Effective Date of the Plan or the date of collection of the Avoidance Actions. The exact amount of payments to



holders of Class 1 claims is contingent on the successful prosecution of the Avoidance Actions and the Sale of Inventory. Moreover, the final dividend to Class 1 may be affected by the costs of pursuing the Avoidance Actions or additional post-petition accounts payable. The distribution of the proceeds of the Sale of the Asset, the Avoidance Actions, and the Sale of Inventory is detailed in Exhibit E hereto.

#### 6.8 Cancellation of Existing Agreements

Except to the extent reinstated or unimpaired under this Plan, or for purposes of evidencing a right to distribution under the Plan or as otherwise provided hereunder, on the Effective Date, all agreements and other documents evidencing any Claim or rights of any holder of a Claim against Debtor, including all indentures and notes evidencing such Claims, shall be cancelled.

#### 6.9 Effectuating Documents and Further Transactions

Upon entry of the Confirmation Order, Debtor shall be authorized and instructed to execute, deliver, file or record such contracts, instruments, releases, consents, certificates, resolutions and other agreements and documents and take such actions as may be reasonably necessary or appropriate to effectuate, implement, consummate and further evidence the terms and conditions of the Plan, including, without limitation, implementing all settlements and compromises as set forth in or contemplated by the Plan or the Sale Motion, and performing all obligations under the Plan.

#### 6.10 Authority to Act

Prior to, on or after the Effective Date (as appropriate), all matters expressly provided for under the Plan and the Sale Motion that would otherwise require approval of the stockholders, security holders, officers, directors, partners,

managers, members of Debtor shall be deemed to have occurred and shall be in effect prior to, on or after the Effective Date (as appropriate) pursuant to the applicable law of Puerto Rico, without any requirement of further vote, consent, approval, authorization or other action by such stockholders, security holders, officers, directors, partners, managers, members of Debtor or notice to, order of or hearing before the Bankruptcy Court.

#### 6.11 Debtor's Post Confirmation Management

Debtor's remaining operations will cease after the implementation of the Plan, as a result of the Sale of Assets, therefore no post confirmation management will be necessary, after the Effective Date. The Avoidance Actions and the implementation of the Plan will be conducted by Debtor.

#### 6.12 Executory Contracts and Unexpired Leases

As part of the Sale of Assets, Debtor will assume and assign to the Purchaser the executory contracts listed in the corresponding exhibit to the Sale Motion. All other executory contracts not to be assumed and assigned by Debtor as part of the Sale of Assets shall be deemed rejected on the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejections pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

#### 6.13 Exculpation

Debtor, and its present and former officers, directors, representatives, shareholders, employees, advisors, attorneys and agents acting in such capacity shall have no liability to any Holder of any Claim or Shareholder Interest or any other Person for any act taken or omission made after the Petition Date in connection with, or arising out of the captioned case, the Plan, the Disclosure Statement, the solicitation of votes

for confirmation of the Plan, the administration of the Plan or Debtor's property distributed under the Plan, or any transaction contemplated by the Plan or the Disclosure Statement in furtherance thereof, except for willful misconduct or gross negligence, as determined by a Final Order of the Court and, in all respects, shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Nothing in the Plan shall release, discharge or exculpate any non-Debtor party from any Claim owed to the United States Government or its agencies, including any liability arising under the Internal Revenue Code or criminal laws of the United States.

## VII. LIQUIDATION AND FINANCIAL ANALYSIS

### 7.1 Best Interest of Creditors and Comparison with Chapter 7 Liquidation

The Liquidation Analysis (Exhibit F) reveals that in the event of a liquidation of Debtor's assets under Chapter 7, considering the costs and expenses of such a proceeding, there would be a substantial loss to Debtor's estate. It reflects that in a liquidation scenario, the Holders of Priority Tax Claims, Holders of Other Priority Claims, and the Chapter 7 and 11 Administrative Expense Claims will receive full payment of their claims, and that the Holders of General Unsecured Creditors will receive a 30% dividend. The Liquidation Analysis also reflects what in Chapter 11 the respective creditors are expected to receive under the Plan versus what is projected they would receive in Chapter 7, underscoring the benefits of the confirmation of the Plan and its effectiveness.

Confirmation of the Plan will assure that holders of Administrative Expense Claims and Allowed Non-Insider General Unsecured Creditors will receive prompt dividends on their claims, as set forth above.

The Liquidation Analysis contains estimates and assumptions that, although developed and considered reasonable by Debtor, are inherently subject to significant economic uncertainties and contingencies beyond Debtor's control.

## 7.2 Feasibility of the Plan

### A) Financial Projections

The feasibility of the Plan rests on the approval of the Sale of Assets, the prosecution of the Avoidance Actions, and the Sale of Inventory.

### B) Funds and Assets Sufficient for Payments Required under the Plan

As of the Petition Date, Debtor owned assets and had liabilities, as more particularly described in its Schedules and Statement of Financial Affairs, filed with the Bankruptcy Court on November 25, 2015, as amended on December 10, 2015 and June 2, 2016. Debtor has prepared and filed with the Bankruptcy Court monthly operating reports summarizing its post-petition financial performance (see Exhibit G and H). These monthly operating reports and Debtor's Schedules, Statement of Financial Affairs, and schedules of Executory Contracts are available for public inspection at the office of the Clerk of the Bankruptcy Court during regular business hours.

#### i) Personal Property

As of the Petition Date, Debtor's Schedules listed Debtor's personal property consisting of checking accounts, security deposits, accounts receivable, furniture, fixtures, manufacturing equipment, vehicles, leasehold improvements, intangibles, including pending patents and other intellectual property, prepaid insurance and licenses, computer equipment and software, and inventory. A detail of Debtor's personal property is included in its Schedule B to Debtor's Chapter 11 petition,

available for inspection at the office of the Clerk of the Bankruptcy Court during regular business hours.

### 7.3 Pending Litigation and Other Liabilities

At the time of the filing of the Petition, there was no pending litigation to be stayed by the provisions of Section 362 (a) of the Bankruptcy Code.

On April 8, 2016, Mr. Dapena filed a complaint against Juan Medina Quintana, Esq. ("Medina"), Debtor's Secretary, and Debtor in the Court of First Instance of Puerto Rico, Ponce Section (the "CFI"), titled José A. Dapena Fernández , Lourdes Boadas Lagraes, y la Sociedad de Bienes Ganaciales compuesta por ambos v. Juan Medina Quintana y Vernus Group Corp., Case No. J PE2016-0153(605), requesting a) a declaratory judgment declaring Mr. Dapena to be Debtor's Shareholder (the "Declaratory Judgment"); b) a mandamus directed to Mr. Medina for him to include Mr. Dapena as a shareholder in Debtor's corporate books; c) a preliminary injunction against Mr. Medina prohibiting the celebration of the Shareholders' annual meeting scheduled for April 20, 2016 (the "Annual Meeting"); and d) a preliminary injunction against Debtor prohibiting it from making effective any decision voted on during the Annual Meeting (the "Complaint").

Debtor answered the Complaint challenging the CFI's jurisdiction and averring that: a) the Declaratory Judgment was under the exclusive jurisdiction of the Bankruptcy Court pursuant to the February 5, 2016's joint stipulation between Debtor and Mr. Dapena at Docket No. 52; b) the automatic stay provisions of Section 362(a) stay any actions arising prior to the filing of the Petition; and c) the requested injunctive relief was academic considering that the Annual Meeting was postponed indefinitely. During a hearing held on June 20, 2016, the CFI declared

that any injunctive relief would be directed solely to Mr. Medina. Since then, nothing further has occurred before the CFI.

As discussed above, Debtor will be filing the Avoidance Actions pursuant to Sections 547, 548 and 549 of the Bankruptcy Code, relative to: 1) avoidance of pre-petition excessive alleged travel expenses paid to Mr. Méndez, and 2) avoidance of the post-petition sale of the Capillary Unit.

#### 7.4 Leases and Executory Contracts

As of the Petition Date, Debtor was a party to several executory contracts, as listed on Debtor's Schedule G to Debtor's Chapter 11 petition. As part of the Sale of Assets, Debtor will assume and assign to the Purchaser the executory contracts listed in the corresponding Exhibit to the Sale Motion. All other executory contracts not to be assumed and assigned by Debtor as part of the Sale of Assets shall be deemed rejected on the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejections pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

### VIII. BAR DATE AND DETERMINATION OF CLAIMS

#### 8.1 Bar Date

On December 2, 2015, in the "Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors and Deadlines" issued in Debtor's and MWI's cases, the Bankruptcy Court fixed April 3, 2016, as the bar date for the filing of proofs of claims and interests (except for Governmental Units), and May 28, 2016, for such filings by Governmental Units.

#### 8.2 Determination of Claims

The Plan specifies procedures for objecting to claims. Debtor may object to

Claims within thirty (30) days before the first date fixed by the Bankruptcy Court for the hearing on the confirmation of the Plan. No payments will be made under the Plan on account of Disputed Claims until their allowance by the Bankruptcy Court. The Plan provides that Distributions on Disputed Claims will be held in reserve until the Disputed Claims are allowed (at which time the reserves will be distributed and the Claims will be treated according to the terms of the Plan), or disallowed (at which time the reserves will be distributed on account of Allowed Claims pursuant to the terms of the Plan).

Any Claims which (a) are not listed as Allowed Claims on Debtor's Schedules, as amended; (b) are not evidenced by a valid, timely filed Proof of Claim; or (c) are not listed in the Plan or exhibits to the Plan as Allowed Claims, shall not receive any distribution of cash or property under the Plan until the same become Allowed Claims, and shall be disallowed and discharged if they are not Allowed by Order of the Bankruptcy Court.

#### IX. ALTERNATIVES TO THE PLAN

If the Plan is not confirmed and consummated, the alternatives include (a) Debtor's liquidation under Chapter 7 of the Bankruptcy Code, (b) dismissal of Debtor's Chapter 11 Case, or (c) the proposal of an alternative plan.

##### A. Liquidation Under Chapter 7

If a plan cannot be confirmed, the Case may be converted to Chapter 7 of the Bankruptcy Code, and a trustee would be elected or appointed to liquidate Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code.

As set forth in the Liquidation Analysis attached as Exhibit F hereto, Debtor believes that conversion of the Case to Chapter 7 of the Bankruptcy Code, considering

the costs and expenses of such a proceeding, would result in a substantial loss to Debtor's Estate. The Liquidation Analysis reflects what in Chapter 11 the respective creditors are expected to receive under the Plan versus what is projected they would receive in Chapter 7, underscoring the benefits of the confirmation of the Plan and its effectiveness.

Thus, Debtor believes that the interest of creditors and the goals of Chapter 11 are better served by the confirmation of the Plan.

B. Dismissal of the Case and/or Foreclosure

Dismissal of the Case would likely create substantial problems for all parties involved, including a run to the courthouse, which would result, in an abandonment of the orderly and structured equitable payments provided by the Plan. Therefore, dismissal of the Case is not a viable alternative for creditors.

C. Alternative Plan of Reorganization

If the Plan is not confirmed, at present, Debtor does not foresee a different plan. Debtor believes that the Plan described herein will provide the greatest and most expeditious return to creditors.

X. TAX EFFECTS

Based on Debtor's available net operating carry forward losses, the provisions of the Puerto Rico Internal Revenue Code of 2011, as amended, and the tax provisions of the Bankruptcy Code, Debtor expects that the implementation of the Plan will not have any tax effects.

XI. CONCLUSION

Debtor submits that the Plan is fair and reasonable and in the best interests of the Estate and Creditors and offers the best possible recovery for Creditors under the



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circumstances. Debtor therefore, urges Creditors to vote in favor of the Plan.

San Juan, Puerto Rico, this 22<sup>nd</sup> day of August, 2016.

VERNUS GROUP CORP.

By:   
Signature

José Rafael Hernández

President